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MEGA MULTIMODAL TRANSPORT OPERATORS & MEGA CARRIERS

Report by the UNCTAD secretariat

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Abbreviations

APL	American President Line
ECE	Economic Commission for Europe
EDI	Electronic data interchange
EDIFACT	Electronic data interchange for administration, commerce and transport
ESCAP	Economic and Social Commission for Asia and the Pacific
JIT	Just-in-time
LCL	Less-(than full)-container-load
MMTO	Mega multimodal transport operator
MT	Multimodal transport
MTO	Multimodal transport operator
NVO-MTO	Non-vessel operating multimodal transport operator
NVO-MMTO	Non-vessel operating mega multimodal transport operator
NYK	Nipon Yusen Kaisha
OECD	Organization of Economic Cooperation and Development
TEU	Twenty-foot-equivalent unit
TRAINMAR	Training in maritime transport
VO-MTO	Vessel-operating multimodal transport operator

INTRODUCTION

- (i) In its resolution 67 (XIV) 3.b, the Committee on Shipping requested the UNCTAD secretariat "to make available... A report on the practical problems faced by Governments and commercial parties involved in multimodal transport and/or container operations including the possible effects of mega multimodal transport operators on the total distribution system in the context of multimodal transport from and to developing countries".¹ The present report has been prepared in response to this request.
- (ii) The report contains three chapters. Chapter I attempts to define mega multimodal transport operators and describe their early evolution. Chapter II traces the growth of mega carriers, mega multimodal transport operators and niche operators. Chapter III looks at their impact on developing countries.
- (iii) The report has been prepared after extensive interviews with a number of the major companies that might qualify for mega multimodal transport operator status. It has not, however, been possible to obtain detailed financial accounts which might have allowed a more in-depth investigation to be made.

¹

Report on the Committee on Shipping on its fourteenth session, annex I (TD/B/1264).

SUMMARY AND CONCLUSIONS

1. Multimodal transport operators (MTOs) are normally divided into two types, those that operate vessels, called "vessel-operating MTOs" or VO-MTOs, and those which do not. This second type is therefore known as "non-vessel-operating MTOs" or NVO-MTOs. In either case the MTO is the transport provider responsible for the goods from point of (inland) delivery to point of (inland) destination, also known as door-to-door transport. In practice, multimodal transport was born with the introduction of the container.
2. When containerization was introduced in world shipping it sowed the seed for the almost inevitable development of huge transport service providers. These companies have now grown so large that one speaks of "mega carriers"² or "mega multimodal transport operators" (mega MTOs or MMTOs). While it is common to use the two expressions synonymously, they do not, in fact, cover the same concept.
3. No agreed definition on what constitutes a mega carrier has as yet been reached. However, to qualify as mega carriers, companies must be much larger than their competitors; thus one may establish three criteria. For example, the company must:
 - a. Have assets of over US\$ one billion or annual revenues in excess of US\$ one billion;
 - b. Be both huge (mega) and simultaneously a "global carrier", that is have a significant presence in most major trade (East-West) routes of the world; and
 - c. Have a certain minimum twenty-foot equivalent unit (TEU) fleet capacity, for example, 80,000 or 100,000 TEUs.
4. The only type of companies that fulfil all three criteria are large container shipping companies, all of which to some extent also act as multimodal transport operators (MTOs).³
5. However, while mega carriers may be termed "MMTOs", an MMTO need not necessarily be an ocean carrier; very large NVO-MTOs might also qualify as MMTOs, provided they otherwise meet the criteria for being of "mega" size.
6. A definition of MMTOs, which must include both vessel-operating MMTOs (VO-MMTOs) and NVO-MMTOs, cannot be based on the same criteria as those used for the definition of mega carriers since NVO-MMTOs, no matter what their financial size, by definition do not operate vessels or have any physical presence on any trade route. The last two of the above criteria must therefore be ignored. However, the MMTO must have a certain agreed financial size and it would therefore be reasonable to retain the same financial threshold. Thus MMTOs, whether of the VO or the NVO category, would be expected to have either assets or annual revenues in excess of say US\$ one billion.

²

Mega from the Greek word 'great' (as in megalith: large stone).

³

That is, they accept responsibility for the goods from door to door.

7. The present report suggests that MMTOs must own one dollar of assets for every dollar of turnover generated. However, the financial health of some mega carriers would appear to be precarious in view of recent reports suggesting that container shipping's average annual return on investment over the period 1987 to 1991 was very close to breakeven, if that.

8. The emergence of mega carriers has presented opportunities for entrepreneurs in developing countries to establish feeder services. In many cases, such services are operated by local shipping companies, either existing ones that have developed new services when they were required, or by newly established companies. In the cases where national shipping lines have failed to take advantage of the new technologies, i.e. they have not managed to provide feeder services, they have lost out.

9. The development of MMTOs and of the feeder services of mega carriers has had a direct positive bearing on the trading prospects of developing countries, because the new types of services offer the opportunity to shippers of selling to many more markets than was possible when they had to rely on services which offered a more limited choice of destinations, although freight rates from a (down-graded) feeder port may be slightly higher than rates from the same port when it was a main or hub port. It may nevertheless be said that MT and MMTOs may have a beneficial effect on world trade, in general and on formerly difficult-to-service smaller ports, in particular.

10. The development of mega carriers, using the narrow definitions suggested above rather than the broader one of MMTOs, may be said to have had a negative impact on certain ports the status of which has been relegated from "main port" to "feeder port". On the other hand, with efficient feeder service operations, the necessity of heavy investment in port infrastructure to accommodate the latest generation of large container vessels of maximum economy and profit potential, with their requirements for deep draught and new-generation container gantry cranes, may be somewhat attenuated.

11. The advent of mega carriers has not meant the demise of all other shipping companies; however mega carriers have established new standards of efficiency and quality of service. Their competitors which have managed to offer services of the same standards have prospered while those that have not have suffered.

12. Similarly, the development of MMTOs has brought to bear new competitive pressures on the freight-forwarding industry in many developing countries. This in turn has meant that the fragmented freight forwarding industry must come to grips with its major weaknesses: minuscule size, low professional status and poorly educated staff. In some developing countries steps are being taken to rectify this situation. There is hope for the emergence of a vibrant forwarding industry in these countries, which over time will develop into MTOs and logistics providers.

13. The impact that mega carriers will have on the transport industries, both international and domestic, of developing countries will be significant. Mega carriers and MMTOs must control the door-to-door movement of the cargoes they carry. The future for many of the traditional liner shipping companies, for domestic road hauliers, for rail carriers, and for NVO-MTOs throughout the developing world, and indeed among the smaller developed countries, is likely to be as feeders and contractors for the MMTOs.

14. This prospect may not yet be imminent in many developing countries, so there may still be time to plan to broaden and strengthen present locally owned transport providers to meet the future challenge. Both the expansion of present operators into regional feeder carriers, and the eventual arrival of the mega carriers themselves, may be financially beneficial, owing to the introduction of improved efficiency and the consequent reduction of costs. This will benefit: the suppliers and manufacturers at one end and the end-users and consumers at the other; domestic transport and communications systems, importers and exporters and all other necessary services such as banking, Customs, etc., and hence the overall economies of developing countries. Thus by taking the right steps now it may be possible to have "the best of both worlds". That is, there is a potential to capture the trade efficiencies and lower costs and therefore the anticipated greater profits brought by the availability of mega carriers; it can also encourage a sufficiently large and strong competitive, domestically controlled transportation industry to match profitably, join, or take advantage of the mega carriers.

15. As this offers a potential "win-win" situation, developing countries should welcome such services. It enables their commerce to enjoy the benefits of technology funded and developed elsewhere while becoming or remaining competitive in world markets. Simultaneously, it provides an excellent training ground for management and professionals in the transport service industry.

16. At the opposite extreme, attempts to exclude such services in order to protect outdated, and therefore uncompetitive, transport operators and systems will only be detrimental in the long run to the commerce and economies of developing countries, and to the education and training of management. It will also push countries into less competitive positions relative to developed countries.

17. Suppliers, manufacturers, shippers, exporters, importers, consignees and end-users in developing countries would not already be making use of the services offered by mega carriers if there were no advantages. That the mega carriers and most other large ocean and multimodal carriers are presently making no profit or only limited profits while introducing and fostering these new concepts is of little consequence to developing countries.

18. MMTOs need not, however, own all links in their MT chain. Indeed, some of them have begun to divest themselves of the shore-side operations in order to enhance their financial position. If this trend continues, it will give opportunities to smaller transport providers for domestic operations in these fields. Developing countries should therefore look to management and worker education of efficient domestic services in transport and communications, with a view to improving their competitive advantage.

19. In spite of predictions that mega carrier would soon dominate world transport, what has been seen of late is the rise of a number of smaller so-called "niche operators" that compete successfully on their chosen routes. In conclusion, it may be said that the fear that mega carriers and MMTOs will out-perform all other transport providers, and therefore threaten their existence, may be premature.

Chapter I

DEFINITIONS AND EVOLUTION OF MEGA CARRIERS

A. Developments leading to the birth of mega multimodal transport operators

20. When containerization was first launched in the 1960s, the seed was sown for the transformation of the traditional transport providers from relatively small companies (seen with today's eyes) into the huge transport service companies which now gird the globe. The concept of containerization was embraced somewhat grudgingly by the traditional shipping companies which for years refused to accept the obvious: that the container was the ideal medium for the transport of goods from door to door, and that if this was to be done efficiently, only one transport provider should be in charge of the entire door-to-door operation.

21. The conservatism of traditional liner operators was one reason why they were eventually taken by surprise by more visionary land-based transport providers, namely, the freight forwarders. The latter saw early on the possibility offered by the containers to expand their services. Moreover, freight forwarders were not limited to serving a certain trade route on which their vessels were trading, because they did not have any vessels. They were therefore free to expand their business beyond their "normal" trading areas; indeed they quickly found their way into North-South trades. Freight forwarders had long arranged for door-to-door transport, but only as agents. Containerization allowed them, with relatively little risk, to become carriers in their own right, offering door-to-door services using the liner services as unimodal (sub) carriers for the ocean leg. The more adventurous freight forwarders thus quickly became so-called non-vessel operating multimodal transport operators (NVO-MTOs) and as a consequence expanded their business substantially.

22. This expansion was achieved by a combination of the establishing of own branch offices and/or taking-over existing freight-forwarding companies along the routes they had decided to serve. In this way they extended their international services networks into the developing world where they had often previously had insufficient business to operate profitably. These take-overs have had both positive and negative implications for the local freight-forwarding industry in developing countries. The positive aspects can be identified as a realization among the more progressive freight forwarders in developing countries of the need to provide better quality services. This has led many freight-forwarding associations in developing countries to engage in serious training of their staff, for example, through the application of the UNCTAD/ESCAP-developed TRAINMAR course for freight forwarders. The negative implications are that the establishment in a country of highly efficient branches of NVO-MTOs from developed countries places considerable competitive pressure on the indigenous forwarders. In some cases these companies have not had the necessary level of service capability to retain their position within the industry.

23. The success of the NVO-MTOs has forced the traditional liner companies to meet the competition by providing similar door-to-door services. In this way they have become vessel operating MTOs (VO-MTOs). At first they subcontracted virtually all land transport operations, but then little by little they felt compelled to have firmer control over these operations. This was done through a series of acquisitions of land-based companies - road hauliers, freight forwarders, Customs-clearance agents, inland waterway operators and railways, where this was possible. Again, the take-over

of local freight forwarding companies by the foreign transport providers meant a squeeze of the market share on the remaining independent local forwarders.

24. As MT developed, it became clear that the traditional scheduling of liner services with one or two departures per month (with each of the many competing liner companies all scheduling their sailings at mid and end month dates) no longer corresponded to the needs of their clients. The number of sailings therefore increased first to weekly departures with "fixed day of the week" schedules, and later, on major trade routes, with two or more sailings per week.

25. Liner shipping companies responded to these demands by developing a system of "burden-sharing" through the creation of consortia where several liner companies provided joint services either through joint marketing or by retaining their individual marketing identity.

26. At first, the creation of consortia meant the amalgamation of fleets of different companies. These fleets consisted of dissimilar types of vessels which, as one example only, forced the scheduling of the consortia fleet in such a way that all vessels in the fleet sailed only as fast as the slowest. This reduced efficiency levels and financial investment to that of the lowest common denominator which tended to lower potential profits while at the same time eliminating the possibility for independent operational action.

27. For this reason, a small number of large, financially well-endowed operators preferred to remain "independent". These "independents" were, however, a small minority, numbering say four or five at the most. The rest of the liner industry was firmly established in "traditional" consortia.

28. The problems associated with the operation of dissimilar fleets soon became apparent; when new vessels were ordered by individual consortia members, harmonization was sought of sizes and speeds so as to eliminate some of the fleet scheduling problems referred to above. Nevertheless, competition was fierce and in due course this resulted in a series of bankruptcies and mergers through which the successful survivors grew in size and power. However, these developments also showed that the existing system of consortia was too inflexible to survive in its original form and new groupings began to emerge.

29. In parallel with the dramatic growth of the size of transport providers, the whole concept of manufacturing and sourcing developed equally dramatically. One reason for this was the increasing use of executives with a financial background as chief operating officers. Contrary to some of their traditional predecessors, who habitually had risen through the ranks from an administrative, operational or engineering orientation, these financially trained executives paid close attention to costs. They were aware that goods in stock were financed by borrowed money; thus, as the cost of money increased when interest rates rose, they devised ways in which to minimize the cost of holding goods in stock. Instead of having large quantities of goods stored in warehouses, a "pipeline system" of movement of goods was developed where the careful timing of the arrival of the goods to market was an integral part. This became known as just-in-time (JIT) delivery.

30. JIT depends on an almost seamless flow of goods from manufacturer to consumer. It is a system which requires smaller but very regular shipments. The result of the introduction of JIT has led to the earlier-mentioned increase of sailings first into "fixed day of the week" schedules and later into daily departures on the main trading routes. However, with the reduction or virtual elimination of stocks, allowances for faulty goods disappeared. This meant that the transport provider

had to deliver goods not only on time, but also in perfect condition. This, in turn, made quality control much more important than in the past.

31. These changes had wide ramifications. In 1989/91 cargo movements and ships' ages combined, on many major trade routes, to force shipowners to order, for delivery in 1991/93, vessel replacement of upgraded capacity, speed and/or technological advancements. The capital-intensive nature of this change also necessitated a "rethink" on profitability, investment and, most importantly, possible sources of funding. Thus, over a period of only a couple of years up to and including 1993 (the process has not yet ended, but appears to be slowing down) there has been a rationalization in the industry worldwide: in consortia, in shareholding, in the introduction of new tonnage, in the expansion of the concept of multimodalism, and among the players themselves, and their policies, plans, and their relationships with each other.

32. In spite of the development of consortia, or perhaps because of their inherent inflexibility, the companies which made the greatest gains during this period were those few which had chosen to remain independent. These companies grew to become truly very large. Moreover, despite their already large size, even these big carriers discovered that it might be advantageous for them to join forces with other like-minded operators. This led to new groupings, which, unlike the old-fashioned consortia, utilize slot-charter arrangements where one carrier charters a number of (container) slots on another company's vessels and *vice-versa*. Schedules are coordinated but management remains separate. Such slot-charter arrangements exist today between both smaller operators and the very large shipping companies. In spite of their big container-carrying capacities, actual and potential MMTOs seem, at least for now, to prefer cooperation in one form or the other.

33. Yet another development - and an outcome of those previously mentioned - was the discovery that if this new system was to function well, very accurate forecasting was necessary and equally accurate information exchanges were required. Fortunately, electronic data interchange (EDI) emerged at the same time. This technique answered the need for speedy transfer of large volumes of data. In due course EDI evolved into what is known today as EDIFACT (electronic data interchange for administration, commerce and transport). Under the guidance of Working Party No. 4 of the Trade Committee of the Economic Commission for Europe (ECE), this eventually became a globally recognized system now known as UN/EDIFACT.

34. It has been said that there is nothing in the future that will not be affected by EDI. This revolutionary technology is having a significant impact on all fields of business and industry in the developed countries.⁴ In many developing countries various forms of EDI have already become a fact of life. In these countries national carriers, like the major international ocean carriers, have invested in EDI if only for competitive purposes. The trend is that where international surface transport has not yet incorporated EDI, when the mega carriers arrive, they quickly introduce these systems.

35. However, managing the vast quantities of data which result from operating a great number of large container vessels efficiently is a finance-hungry activity. Those who do it best are the large transport providers with sufficient capital resources.

⁴ MT Newsletter No. 3, UNCTAD, 1991, p. 6.

36. The result of these separate developments has been the emergence of a limited number of very large container carriers, most of them being at the same time MTOs. They are the ones who became known as "mega carriers". In addition to being MTOs, the mega carriers are also mega MTOs, or MMTOs.

37. While an agreed definition of mega carriers seems so far to have eluded transport commentators, it may be noted that the ten major ocean transport companies (that were also MTOs) in 1989 had yearly revenues ranging from US\$0.7 billion to US\$2.6 billion each, with assets worth between US\$0.5 billion and US\$2.6 billion. The latest, but still incomplete, figures for 1992 show increases of up to 27 per cent over the 1989 levels. The forecast is for increases in turn over by the year 2005 of four times the 1989 levels.⁵ Admittedly, such figures are often quoted for a company only part of which engage in MT, but they still give a picture of the magnitude of the companies involved in the quest to become mega carriers.

38. One way of defining a "mega carrier" might therefore be purely financial: above a certain threshold the company is a mega carrier, below it is not. The parameters of the cut-off point would be up to the individual, but one could say that to qualify as an mega carrier, a company would probably need assets of over US\$ one billion or annual revenues in excess of US\$ one billion. In considering whether this arbitrary limit is "appropriate", it may be well to realize that, for example, NYK increased its 1992 sales by US\$1.5 billion.⁶

39. The NVO-MTOs have also been making relatively large investments, but in services rather than in hardware, as competition from their peers and from the expanding ocean carriers forces them into providing service in areas with only long-term prospects of profits. Although their asset values are much lower than those of the large ocean carriers, some of the largest European NVO-MTOs nevertheless have turn-overs similar to, or larger than, those of many ocean carriers. Consequently, such NVO-MTOs may also be classified as MMTOs, or rather mega-NVO-MTOs. However, since they are only using and not operating ocean carriers, they are not considered to be mega carriers.

40. Some commentators who have tried to define what constitutes an MMTO claim that an MMTO must be both huge (mega) and simultaneously global, that is, have a significant presence on most major trade routes of the world. As with the question of a financial limit, the definition of what constitutes "huge" requires the MMTO to have a container fleet capacity of a certain minimum number of twenty foot equivalent units (TEUs). This could be, for example, 80,000 TEUs. Only some six or seven (shipping) companies are of this size. If the limit is raised to say 100,000 TEUs, the number drops to three or four carriers only.⁷ If the limit is lowered to say 60,000 TEUs, a total of about 12 or 13 (shipping) companies might qualify.⁸ However, when the TEU limit is combined with the demand for a global presence, only a handful of ocean carriers can be said to be MMTOs that qualify both in size and presence. Furthermore, such a definition would exclude

⁵ See, for example, "Globe Trotter", *Port Development International*, Volume 9, Number 5, West Smithfield, United Kingdom, May 1993, p.17, or "K-Line acts to counter the slowdown", *Lloyd's Shipping Economist*, London, Vol. 15, No. 7, July 1993, p. 20.

⁶ "Japanese lines see marketing efforts as way to increase sales", *Lloyd's List*, London, 10 October 1993, p. 2.

⁷ Maersk, Sea-Land, Evergreen, and NYK.

⁸ Mitsui-OSK, P&O, K-Line, Hanjin, Nedlloyd, Zim, APL, Hapag-Lloyd, and Neptun Orient Line in addition to those listed above (source: *Containerisation International*, November 1993, p. 35).

all NVO-MTOs, whatever their financial size, since NVO-MTOs by definition do not have any physical presence in any trade route.

41. Finally, there is a category of MTOs which is habitually neglected, the so-called "express carriers", i.e. companies which compete primarily with established postal services, but which have branched into the carriage of parcels the sizes of which tend to increase, so that today they must be considered as *bona fide* MTOs or even MMTOs. As they are also owners and/or operators of assets of considerable value, mainly aircraft and delivery vans, they should not be ignored. The largest have more than 100,000 employees, operate hundreds of aircraft and tens of thousands of trucks, and have revenues that run into billions of dollars. DHL, according to newspaper reports was expected to have a turn-over of US\$3 billion in 1993⁹ while one other company had a global 1992 revenue in excess of US\$16 billion (including domestic operations within the United States of America). Another company expected its 1993 revenue to reach US\$7.8 billion.¹⁰ However, for the purposes of this study it has been decided that they cover a market so specialized that it may be pardoned if they are not taken into consideration.

B. Development of feeder services

42. The major trade routes of the world run East-West. For this reason, the development of mega carriers initially had little influence on trades from or to developing countries, apart from those were situated directly on these East-West trade routes. However, as time passed and systems were perfected, the VO-MMTOs increased the size of their vessels and reduced the number of ports of call. Those ports which continued to be served were called "hub ports". A few of these are located in developing countries. When the world economy contracted, the VO-MMTOs found themselves with an increasing number of empty container slots. This led, *inter alia*, to the expansion of their services into the North-South trades.

43. However, the efficient large container vessels, the so-called "main haul" or "mother" vessels, could not be diverted to ports outside the East-West trade routes because of the added cost and lack of appropriate infrastructure. Instead, growing networks of local "feeder" services developed to "feed" cargoes to the main haul vessels. A parallel to this development is the airline industry's "hub and spokes" services which have been well developed.

44. The concept of feeder cargoes helping fill "main-haul" vessels predates containerization, yet it was containerization which brought it to the level of perfection attained today. With today's efficient transport systems, the importance of direct calls by "main haul" vessels has diminished for both ocean carriers and traders, but perhaps not for the by-passed ports. It must also be noted that downgrading of a port from "main" or "hub-port" status to that of feeder port may increase freight rates to and from such a port.¹¹ The policy of which ports to call and which to omit,

⁹ *Journal international de transport, Overseas Digest*, Basel, Issue 32/1993, p. 2713.

¹⁰ Information made available to the UNCTAD secretariat by the express carriers.

¹¹ See, for example, "Big Swedish shippers join forces", *Journal pour le transport international, Overseas Digest*, Basel, 40/1993, where it is claimed that freight rates increased by US\$125 per 20-foot container and US\$225 per 40-foot container when the port of Gothenburg was downgraded to feeder port status, p. 3437.

depending on cargo flows etc., is nevertheless open for continuous review and today's feeder port may become tomorrow's hub port if the conditions are right.

45. It is evident that the development of feeder services has had a direct bearing on the trading prospects of developing countries. Precisely because of the existence of networks of feeder services that feed into the ocean carriers' main-haul services which, in turn, feed into other relay and/or feeder services, coupled with the development of NVO-MTOs who offer less-than-container loads (LCL) consolidation services, small shippers now have access to a much larger range of markets. An UNCTAD has report suggested that ocean carriers, by organizing "secondary transport networks served by purpose-designed feeder ships, have increased the number of ports served from a single port of shipment. By extending their operations upstream and downstream, they have achieved sweeping economies of scale and gained other advantages that have enabled them to offer shippers a made-to-measure service."¹² It may thus be said that MT and MMTOs may have had a beneficial effect on world trade, in general, and on formerly difficult-to-service smaller ports, in particular.

46. While, at first, feeder vessels were very small, 50 twenty-foot equivalent units (TEUs) containers vessels were not unusual, the norm is now ten times larger, with some MMTOs running feeder vessels with a carrying capacity of over 1,500 TEUs, or more than many first generation ocean-going full container vessels. In the autumn of 1993 American President Line (APL) was reported to be in the market for the largest "feeder" vessels ever contracted; sizes of "at least 3,000 TEUs" were reported.¹³ This has led to a certain blurring of where feeder services terminate and main haul routes commence. While on certain MMTO routes perhaps only 25 per cent of the containers on the "main haul" vessels will actually be carried on two different vessels, on other MMTO routes the proportion may easily reach 50 per cent, and to certain destinations, perhaps close to 85 per cent. Smaller operators, for example, the "niche carriers", would have a much smaller percentage of containers carried on more than one vessel.

47. Not all feeder services are provided by the MMTOs themselves. In many cases, they are operated by local shipping companies, either existing ones that have developed new services as required, or those newly established. Where national shipping lines have failed to change with the introduction of new technologies, i.e. they have not managed to provide feeder services, they have lost out.

¹² "The establishment of transshipment facilities in developing countries" (TD/B/C.4/AC.7/10), para. 1.

¹³ "APL announces new series", *Containerisation International*, The National Magazine Company Ltd., London, October 1993, p. 9. Later, the size of 3,600 TEUs was reported in, e.g., *Seamrade Week Newfront*, Colchester, United Kingdom, Vol. XII No 49, p. 6.

Chapter II

GROWTH OF MEGA CARRIERS AND NICHE OPERATORS

48. Traditionally, liner companies carried cargo from port to port and their tariffs reflected this. The intention was to cover costs of the ocean transport and the cost of loading, stowing and unloading the cargoes in addition to a certain profit margin. A number of UNCTAD reports have dealt with the question of setting ocean freight rates.¹⁴ However, with the development of MT services, freight rates must cover not only the traditional costs mentioned above, but also all the pre and post ocean modes and interface costs. A set of model rules for multimodal container tariffs was developed under the auspices of UNCTAD by a group of experts¹⁵ to harmonize these tariff rules. It is, however, not the object of this report to discuss the vexing question of MT tariff rate setting or coverage.

49. The impact of globalization and concentration of services provided by MTOs has meant large capital investments. Furthermore, most global carriers also needed more money to expand into land-side "value-added" distribution systems, first into rail landbridge investment in North America then into road, rail and inland waterway transport in Europe, including the former Eastern bloc countries, prior to expansion into the developing countries of Asia, Africa and Latin America.

50. It is not only the growth of existing markets of the VO-MTOs that has entrained the recent rapid growth of the large shipping companies. Their expansion into related markets through take-overs and vertical integration in order to provide value-added services has also played an important part in the process.

51. Only by growing to enormous size could the systems be afforded, the hardware obtained, and the market share seized. However, to achieve the level of revenue required to sustain such growth, these transport companies faced increasing requirements for heavy investments, large resources of personnel and hardware and of cash.

52. Expansion in the modern multimodal container transport industry to reach mega carrier status is highly capital-intensive and cash-consuming. Typically, a company must own a dollar of assets for every dollar of turn-over generated. Thus mega carriers, purely in their MT businesses, both own and sell US\$1 billion of business annually on average.¹⁶

53. A few quotations from transport commentators may illustrate the point. Some time ago a senior American banker said, "today the mega carriers are really in asset management - a field of fewer and bigger players - rather than in shipping. I foresee enormous concentration in the

¹⁴ For example, "Shippers interests and freight rates negotiations", (TD/B/C.4/332), or "Ocean freight rates and their effects on exports of developing countries" (UNCTAD/ST/SHIP/11).

¹⁵ See "Final report of the Group of Experts to develop and recommend model rules for multimodal container tariffs", Palais des Nations, Geneva 1-5 December 1987 (TD/B/C.4/308).

¹⁶ Damas, P., "Cash & Carry", *Containerisation International*, London, January 1991, p. 29.

business, where there is little room for niche operators... [and] ...it is essential for the survival of operators which cannot become giants... to reduce the level, or the risk factor, of assets accumulated."¹⁷

54. Another commentator echoed this view when he said, "during the next 20 years some large transport groups will expand the current trend of owning multimodal systems linking ocean, rail, air, land, and forwarding."¹⁸ A third believed that "the whole process will be effected by the former [liner] shipping companies... because they have the necessary financial capability, expertise on trade and transport regulations, procedures and practices and an integrated network of offices linked by modern communications".¹⁹ Finally, it has been said that "what carriers are doing is building a global transportation or distribution system. The urge to become a "global carrier" has become the *credo* of most [shipping] majors".²⁰

55. Indeed, not too long ago, leading shipping pundits prophesied that within a relatively short time world liner shipping would be dominated by a few large lines.²¹ In no other way could the appetite for cash for capital investment in new and ever larger ships be met, nor could the reorganization which multimodalism requires be financed. Big was not only beautiful but essential.²²

56. This, indeed, was one of the underlying reasons why the Committee on Shipping called for the present study to be carried out.²³ However, lately, this "traditional" view of unrelenting growth by the mega carriers tending to dominate the industry has been called into question. The emergence of some successful smaller container liner companies in the face of competition from the mega carriers has been cited as proof hereof.²⁴

57. For the decade 1980-1989 inclusive, the average corporate growth rate of the ten biggest liner shipping companies was 80 per cent, i.e. an annual compounded rate of just less than 7 per cent (but during the last four years of that decade the growth averaged 12, 22, 11, and 9 per cent, respectively). During the same decade, average freight rates did not keep up with inflation, which, in the words of one industry press report, "averaged 68 per cent according to the OECD while the average income increases of these companies was approximately 60 per cent".²⁵ That translates into more cargo at lower real rates. A recent press report has suggested that "container shipping's average annual return on investment between 1987 and 1991 was zero per cent".²⁶ If returns are really that low, one can only wonder why anyone would invest in container shipping.

17 Wilkinson, H., *Manufacturers Hanover Trust Company*, London, January 1991.

18 Collins, R., quoted by Butcher, M., "Multimodalism - the Challenge for the 90s", Reform in Freight Transport Conference, Sydney, March 1991.

19 Rimmer, Dr. P., Australian National University, quoted in *Cargo Systems*, London, April 1991, p.25.

20 Anderson, D.L., & Gillies, J., "What can we learn from Western Europe?", Council of Logistics Managers Conference, Anaheim, October 1990.

21 Editorial, *Lloyd's List International*, London, 26th March 1991.

22 *Ibid.*

23 Resolution 67 (XIV) 2 (d) stated *inter alia* that the Committee would "review the studies of the UNCTAD secretariat in the field of multimodal transport and containerization... and make recommendations to Governments and commercial parties as appropriate, bearing in mind: (i) The effects on developing countries of the establishment of very large multimodal transport operations;" (Report on the Committee on Shipping at its Fourteenth Session, *op. cit.*).

24 Porter, J. "Officials cast doubt on 'Mega-Carrier' theory", *The Journal of Commerce*, New York, 2 September 1993, p. 8B.

25 Damas, P., *op. cit.*

26 "Brain Box", *Containerisation International*, October 1993, *op. cit.*, p. 19.

58. Of course, transport providers from developing countries can become MMTOs - one or two already qualify - but in view of the heavy financial requirements and the doubtful economic viability of the services, it may be more prudent to set the aim towards "feeder" or perhaps "niche" container operations rather than towards becoming a mega carrier.

59. The dismal returns obtained by container shipping companies may be one reason for a development which only lately has become visible, a beginning move by some VO-MMTOs of divestiture of the land-based companies acquired at great expense some time earlier, because of a belief (or realization) that ship operators might better "stick to their last", that is, not distort their area of competence but leave complicated inland transport operations to those who know it best and instead concentrate on what shipping companies know best, namely, how to operate ships.

60. However, while the MMTOs may be divesting themselves of some services, they are not withdrawing from the market, low returns notwithstanding. A possible answer to why anyone might want to remain in the business of providing VO-MTO services may be that shipowners have realized that they can increase their cash flow dramatically if they engage in MT. The development of MT has meant that the carrier, i.e. the MTO, received more money for transporting cargoes simply because more services were provided. Since the ocean portion of a MT operation often reaches only 30 per cent or less of the total freight bill, it means that the VO-MTOs have more than tripled their cash flow compared to the time when they provided ocean transport services only. To the extent that not all of this additional cash is paid out immediately to subcontractors, this yields an immense financial advantage to the MTOs. It follows from this that the bigger the MTO, the more cargo is carried, hence the greater the cash flow. This may be the key to the relentless drive towards larger MTOs.

61. If this is correct, the world will see the development of two distinct types of VO-MTOs: (i) the VO-MMTOs with vast networks of offices, feeders and "strings" of East-West (and, increasingly, North-South) services backed up by sophisticated EDI services, etc., and (ii) the smaller, yet very cost-efficient VO-MTOs that through concentration on specific niche operations are financially successful in their own right. If this development is sustained, the effects which the emergence of MMTOs will have on VO-MTOs from developing countries may be less pronounced, provided that they are capable of developing into "cost-efficient" "niche-operators". The inefficient, pretentious or high-handed liner operator of yesteryear, who saw clients as there to be milked, only deserves to disappear. Modern cargo transport is a partnership which requires a level of cooperation between cargo provider and transport provider unheard of just a few years ago. Smaller VO-MTOs that successfully can develop into cost-efficient, service-oriented niche operators will survive. Those that cannot will be forced out of business.

Chapter III

EFFECTS ON DEVELOPING COUNTRIES OF THE EMERGENCE OF MEGA MTOs

62. There have been three revolutions in the transportation industry in the last generation. The first was the advent of containerization in the late 1960s which induced shipping lines to extend their services ashore. The second was the change in trading practices in the late 1970s and early 1980s, from few, large shipments requiring large storage facilities along the route, to small frequent shipments which virtually eliminated en route storage. The third was the emergence of EDI in the late 1980s.

63. All three worked to encourage the development of logistics services. These require the development of an intimate relationship between the transport provider - in this case the MMTO - and the client. Those transport providers that can furnish logistics services to the extent required by sophisticated importers in developed countries, will be able to establish a long-lasting relationship with their clients, relationships which will be to the mutual benefit of both transport provider and user and moreover increasingly difficult to break.²⁷ Those transport providers which cannot achieve this, will wither. MMTOs are of the type of transport companies that can and will provide the services required. They will mount effective campaigns not only to retain clients, but will aggressively go after new ones.

64. By offering such very sophisticated services the MMTOs are providing their clients - both shippers and consignees - with an efficient transport chain and in this way helping to foster increasing trade. In so far as either shipper or consignee is located in a developing country, it may be said that the emergence of MMTOs has a beneficial effect on the trade of developing countries. However, since virtually all MMTOs come from developed countries, their success may prove to be the traditional developing-country transport providers' ruin.

65. It may be disadvantageous to protest against MMTOs seen from a narrow "developing country carrier point of view" since MMTOs do help trade, but the elimination of national transport providers cannot be viewed in simplistic terms. Nevertheless, placing barriers against MMTOs would not be in the best interest of trade. The answer therefore must be to help transport providers from developing countries become more efficient carriers, feeder carriers, and/or perhaps "niche carriers" providing efficient, cost-effective transport services in areas not well-served by the MMTOs. The longer-term future for many of the liner shipping companies, for domestic road hauliers, for rail carriers, and for NVO-MTOs throughout the developing world, and indeed the smaller operators from developed countries as well, may be as feeder service operators and subcontractors for the mega carriers and MMTOs.

66. Fortunately, this prospect is not yet imminent in many developing countries, so there is still time to plan to broaden and strengthen present locally owned businesses to meet the future challenge. Both the expansion of present operators into regional MMTOs, and the eventual arrival of the

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See "Inventory of existing mandates and new draft programme of work in the field of multimodal transport and technological development" (TD/B/C.4/232), paragraph 96 (a).

mega carriers themselves, will be financially beneficial to the suppliers and manufacturers at one end of the transport chain and the end users and consumers, domestic transport and communications systems, importers and exporters and all other necessary services providers such as banks, insurance companies, Customs, etc., and the overall economies of developing countries, at the other, owing to improved efficiency and reduced costs. Thus, if the national transport providers in developing countries now take the necessary steps to improve their services, it may be possible to have the best of both worlds: (i) improved trade efficiencies and lower costs and therefore the potential of greater profits that the mega carriers bring, and (ii) a sufficiently large and strong competitive, domestically controlled transportation industry to match profitably, join, or take advantage of the mega carriers.

FUTURE REQUIREMENTS

67. All companies engaged in transport, domestic and international, and in associated fields such as communications, must strive to reach and maintain competitive levels in these areas whether through the development of their own capabilities or through linking up with financially strong multinationals to provide such services. Only with truly competitive systems will national carriers remain viable and survive. With such modern systems, the whole economy benefits. Protection of national operators from competition will prove detrimental to the whole economy compared to neighbours' and direct competitors' economies.

Information Retrieval**KEYWORDS**

Africa, Asia, Committee of Shipping, consortia, containerization, ECE, EDI, EDIFACT, ecological impact, ESCAP, Europe, feeder services, feeder ports, globalization, global carriers, hub ports, JIT, just-in-time, Latin America, main haul vessels, mega carrier, mega multimodal transport operator, mother vessels, MMTOs, MTO, North America, NVO-MTOs, OECD, slot charters, technological developments, trade efficiency, TRAINMAR, VO-MMTOs, VO-MTOs.

ABSTRACT

Definitions of mega carriers and mega multimodal transport operators. The influences of just-in-time. Changes in transport cooperation from consortia to slot carters. The influence of EDI. Development of feeder services. The lack of profitability and the importance of cash flows. The emergence of niche operators. The positive effects of trade.

The report contains a summary and conclusions and three chapters which cover the following:

- Chapter I: Definitions and evolution of mega carriers;
- Chapter II: Growth of mega carriers and niche operators;
- Chapter III: Effects on developing countries of the emergence of mega carriers.